

# Consultation

## Draft Electricity Transmission annual reporting framework (RIIO-ET3)

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This document seeks views on the proposed Regulatory Instructions and Guidance (RIGs), the Regulatory Reporting Pack (RRP) data template and the Transmission Glossary for the onshore Electricity Transmission (ET) sector for the RIIO price control framework, from 1 April 2026 to 31 March 2031. This is the third ET price control using the Revenue = Incentives + Innovation + Outputs (RIIO) price control model.

This consultation is intended to ensure that reporting templates and guidance are in place to support consistent annual reporting and regulatory monitoring, in accordance with the provisions under ET Standard Licence Condition B15 (Regulatory Instructions and Guidance), relating to the RIIO-ET3 price control framework. We seek views on all draft documents.

Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on our website at <https://www.ofgem.gov.uk/consultations>. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential.

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## Contents

<b>1. Introduction.....</b>	<b>4</b>
Purpose of this consultation .....	4
Context and related publications .....	4
Overview .....	6
Way Forward .....	13
Consultation stages .....	13
How to respond .....	14
Your response, data, and confidentiality.....	14
<b>2. Proposed Reporting Framework.....</b>	<b>15</b>
Key proposals .....	15
<b>Send us your feedback .....</b>	<b>37</b>
<b>Appendix 1. Proposed cost classification steps .....</b>	<b>38</b>
<b>Classification steps.....</b>	<b>38</b>
<b>Appendix 2. Early Enabling Works .....</b>	<b>48</b>
<b>Appendix 3. Privacy policy .....</b>	<b>56</b>
Personal data .....	56

## 1. Introduction

- 1.1 This document seeks views on the proposed Electricity Transmission (ET) regulatory reporting framework for application in the RIIO-ET3 price control period (1 April 2026 – 31 March 2031). While the framework builds on the structures and principles developed for RIIO-ET2, it constitutes a new set of reporting arrangements designed for RIIO-ET3.<sup>1</sup>
- 1.2 This consultation document covers three key regulatory artefacts which underpin the annual monitoring and enforcement of price control obligations in RIIO-ET3:
- The Regulatory Instructions and Guidance document (RIGs);
  - The Regulatory Reporting Pack (RRP) Excel data template; and
  - The Transmission Glossary document.
- 1.3 We seek stakeholder comments on the form and content of the draft package and how we intend to monitor performance over the RIIO-ET3 period.

### **Purpose of this consultation**

- 1.4 The RIGs, RRP and Transmission Glossary are the principal means by which we collect cost, volume, allowed expenditure and output delivery information from the owners of the three onshore ET networks (referred to hereafter as Transmission Owners, or TOs) to monitor performance against their price control objectives and hold them to account.<sup>2, 3</sup> This information enables us to monitor annual and periodic performance against RIIO-ET3 price control framework objectives and to hold TOs to account on their delivery and cost performance.

### **Context and related publications**

- 1.5 In September 2024, we published the final version of the data templates and associated instructions and guidance for use by TOs to enable them to complete the business plan data template (BPDT) submission for the RIIO-ET3 price control in December 2024. The data and accompanying explanation received through the templates was subject to review and assessment and formed the basis of the [Final Determinations for RIIO-ET3](#).<sup>4</sup>

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<sup>1</sup> [RIIO-2 Regulatory Instructions and Guidance and Regulatory Reporting Packs | Ofgem](#)

<sup>2</sup> The “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

<sup>3</sup> National Grid Electricity Transmission plc (NGET), SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission plc (SHE Transmission).

<sup>4</sup> [RIIO-3 Final Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#)

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- 1.6 Following the publication of Final Determinations in December 2025, we undertook a review of the reporting requirements based on BPDT submissions, including data dependencies, data flow and structure. Our work has been guided by an approach of evolution, not revolution, maintaining consistency with the RIIO-ET framework and existing internal processes, where appropriate.
- 1.7 From this review, we identified issues with how we structurally set up and present data tables, with a specific focus on the Cost & Volume (C&V) reporting and associated guidance. The proposed templates explicitly exclude updated revenue/financial model reporting, which is being developed in a separate [consultation](#).<sup>5</sup>
- 1.8 Using these findings, and informed by regular engagement with the TOs, we have developed a revised set of RIGs for the purpose of annual reporting in RIIO-ET3. We have designed and structured the RRP data templates to be an evolved version of the BPDT.
- 1.9 The proposed ET3 RIGs, RRP template and Transmission Glossary are being introduced as part of the new RIIO-3 price control framework. While they build on the structures and principles developed for RIIO-2, they are not formal modifications to the RIIO-2 reporting framework, which ended in March 2026. Instead, they constitute a new set of reporting arrangements that apply specifically to the RIIO-3 period.
- 1.10 As such, the purpose of this consultation is to seek views on the design and application of these new arrangements, rather than to consult on amendments to an existing in-force instrument. This approach is consistent with the process followed for the transition from RIIO-1 to RIIO-2, where updated reporting templates were developed and consulted on for the new price control period.
- 1.11 The proposed set of documents aim to:
- Ensure consistent and comparable reporting;
  - Improve transparency and auditability;
  - Strengthen regulatory monitoring and accountability; and
  - Align reporting with licence conditions and funding structures under RIIO-ET3.
- 1.12 The evolution from ET2 RIGs to ET3 is not conceptual but operational, with ET3 building on the same underlying principles as ET2 while enhancing clarity and

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<sup>5</sup> [RIIO-3 interim Regulatory Reporting Packs \(RRP\) and Price Control Financial Model \(PCFM\) guidance for electricity transmission, gas transmission and gas distribution | Ofgem](#)

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

consistency through more explicit rules and definitions, structured step-by-step cost classification logic, and the removal of ambiguity in application.

### **Overview**

1.13 The consultation highlights several important developments:

- a) Clarification of funding versus activity-based cost classification;
- b) Integration of major transmission investment projects<sup>6</sup>;
- c) Treatment of Early Enabling Works (EEW);
- d) Treatment of mixed activity packages;
- e) Asset linkage and lifecycle visibility;
- f) Further clarification on Contractor Indirect (CI) cost treatment;
- g) Introduction of Risk and Contingency (R&C) reporting;
- h) Introduction of Full Time Equivalent (FTE) reporting;
- i) Reporting burden, practicality and general updates; and
- j) Interaction with revenue worksheets and the innovation worksheets.

1.14 These are briefly summarised in turn below. Further detail is provided in Chapter 2.

#### **a) Funding mechanisms and activity-based classification**

1.15 All costs must be classified based on the nature of the activity undertaken, rather than funding source, contract structure, or delivery model. The established RIGs hierarchy remains the authoritative basis for reporting.

1.16 A key boundary for cost classification is whether the activity:

- involves qualifying physical work associated with construction delivery; or
- produces outputs relied upon to physically construct, install, configure or sequence delivery of the asset in practice (“construction-defining outputs”).

1.17 These are independent classification tests. Direct classification may arise through either qualifying physical works or construction-defining outputs, including where no physical work has yet taken place.

1.18 Accordingly, activities should not be classified solely based on whether they are physically intrusive or undertaken on site. The decisive factor is whether the

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<sup>6</sup> “Major Projects” typically involve material expenditure, project-level regulatory scrutiny and approval, dedicated governance processes, and enhanced monitoring due to their scale or strategic importance.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

activity either physically delivers construction or produces outputs directly relied upon to execute construction in practice.

- 1.19 All other activities will be classified as Indirect and further categorised as Closely Associated Indirect (CAI) or Business Support (BS). These include activities that inform, shape, or support what is built and how, but are not directly relied upon to execute construction delivery in practice.
- 1.20 For the avoidance of doubt, construction-defining outputs may arise from both physical and non-physical activities. Activities such as detailed engineering, installation methodology development, construction sequencing, logistics configuration, foundation design, interface design, or construction-defining investigations may therefore be classified as Direct where the outputs are directly relied upon to execute construction or installation in practice.<sup>7</sup>
- 1.21 Pre Construction Funding (PCF) and Early Construction Funding (ECF) define how activities are funded, but do not determine how they are reported. Activities funded through PCF or ECF must be classified in accordance with the RIGs activity-based hierarchy, based on their underlying nature.<sup>8</sup>
- 1.22 Appendix 1 sets out the sequence of steps to determine how costs should be classified under the RIGs framework. It also provides examples to illustrate the practical application of the classification sequence, showing how activities should be assessed and classified.

### **b) Major Project-related activities**

- 1.23 We propose to incorporate Major Projects into standard annual reporting, fully integrated within the existing RIGs activity-based classification framework. This will improve the consistency, comparability and traceability of costs, outputs and associated assets for these investments, while providing a more holistic view of TOs' expenditure.
- 1.24 While the reporting framework has been developed with the Accelerated Strategic Transmission Investment (ASTI) framework as a primary reference point, the

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<sup>7</sup> In practice, similar activities may be classified differently depending on their purpose and outputs. For example, activity undertaken to support option development or route selection is treated as supporting activity and classified as Indirect, whereas investigations whose outputs are directly relied upon to enable or execute construction in practice may be classified as Direct.

<sup>8</sup> In addition, TOs will be required to apply reporting flags to indicate whether costs relate to PCF or ECF. These flags sit alongside, and do not affect, the underlying cost classification, but enable transparency and comparison against the relevant funding mechanisms.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

overall approach is expected to be applicable more widely to other Major Projects delivered within the broader Clean Power 2030 (CP2030) policy context.<sup>9</sup>

### c) Early Enabling Works (EEW)

1.25 EEW is not a separate reporting category, but an activity descriptor (or “flag”) applied in addition to cost classification. It applies where activities:

- are classified as Direct;
- involve qualifying physical enabling works associated with construction delivery; and

1.26 physically enable construction to take place without forming part of the final asset.

1.27 For clarity, not all Direct activities qualify as EEW. Direct classification may arise either through qualifying physical works or through construction-defining outputs relied upon to enable or execute physical delivery. However, only the qualifying physical enabling works subset of Direct activity may receive the EEW reporting flag.

1.28 In simple terms, some activities may be classified as Direct because they form part of delivering the asset, but only the physical “getting the site ready” work is counted as EEW. This distinction prevents all early or preparatory work from being treated as EEW, ensuring that only physical site preparation activities qualify, rather than design, planning or surveys.

1.29 We recognise that the term “early enabling” may operationally be used to describe a broader package of activities associated with preparing projects for construction (often described operationally as bringing projects to a ‘build-ready’ state). Such activity packages may contain a combination of:

1.30 Direct physical enabling works;

- scheme-specific non-physical support activity; and
- broader supporting or governance activity.

1.31 However, only the Direct physical enabling component (item a) should be identified as EEW for regulatory reporting purposes.

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<sup>9</sup> More detail on the ASTI framework can be found here: <https://www.ofgem.gov.uk/decision/decision-accelerating-onshore-electricity-transmission-investment>

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- 1.32 Activities falling within sub-categories (b) or (c) do not normally qualify for the EEW reporting flag and should instead be classified separately in accordance with their underlying nature, typically as CAI or Business Support as appropriate.
- 1.33 In the EEW context, CAI activities act as a bridge between strategic planning and physical delivery. They typically capture non-physical activity that helps prepare, coordinate, plan and mobilise a scheme towards construction readiness, but is not directly relied upon to execute it.
- 1.34 In the EEW context, Business Support activities support delivery at a broader corporate, portfolio or programme level. They typically capture governance, oversight, and other non-scheme-specific activities that facilitate the wider delivery environment. However, these activities are not directly relied upon to physically construct or install the asset and do not normally involve qualifying physical enabling works.
- 1.35 Examples of activity that may sit within broader “early enabling” packages but would not typically be EEW flagged include<sup>10</sup>:
- surveys (typically classified based on whether outputs are informational<sup>11</sup> or are relied upon to execute construction of the asset in practice<sup>12</sup>);
  - mobilisation activity involving contractor set-up planning, sequencing meetings and mobilisation schedules (typically CAI);
  - temporary welfare planning (could be CAI or Business Support);
  - logistics planning (could be CAI where it involves non-physical scheme-specific support activity, but could be Direct where outputs are directly relied upon to define construction sequencing, installation methodology or physical delivery requirements); and
  - project management or programme coordination activity (typically CAI or Business Support depending on the nature and level of delivery embedding).

### d) Mixed activity packages

- 1.36 This applies to activities where one or more of the following apply:

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<sup>10</sup> Examples cannot be rigidly assigned because activities must be classified separately based on their underlying nature and scheme attribution.

<sup>11</sup> Activities support option development, route selection, environmental assessment, or general project understanding, but do not directly determine how the asset will physically be constructed.

<sup>12</sup> Activities directly inform or determine executable physical construction delivery, installation methods, or construction sequencing. Importantly, construction-defining outputs may arise from non-physical activities (for example desk-based engineering) where the outputs are relied upon to physically construct, install or deliver the asset, even where no physical construction activity has yet taken place.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- The activity contains both Direct and Indirect elements;

1.37 The activity spans different regulatory purposes (for example design versus delivery);

- The activity includes both scheme-specific and portfolio-level components; or
- The activity results in different types of outputs that are meaningfully different from each other (for example, technical design work and physical construction), so they should be assessed and classified separately.

1.38 Where work packages include mixed elements TOs must:

- separate activities on a reasonable and proportionate basis;
- classify each component according to its underlying nature; and
- avoid treating mixed activities as a single cost type.

### e) Asset linkage and lifecycle visibility

1.39 The proposed reporting frameworks require costs to remain linked to the underlying asset or scheme assets across all project stages.

1.40 This approach ensures that costs incurred across development, enabling, and construction phases can be viewed together, supporting full lifecycle cost visibility and comparability across TOs over time.

### f) Contractor Indirects (CIs)

1.41 The proposed reporting framework reinforces cost classification based on the nature of the activity rather than the invoice structure, while recognising the use of existing data and reasonable allocation methods where more detailed information is unavailable. Classification of CI costs will therefore remain principle and aligned to the RIGs cost classification hierarchy.

1.42 The structure seeks to strike a balance between conceptual accuracy and practical deliverability.

1.43 As in RIIO-ET2, the framework is designed to work with existing cost capture systems and data structures, and to align with how TOs already record costs in their internal systems. It does not require redesign of internal systems or artificial or speculative disaggregation of costs. Where costs are not separately identifiable, TOs may continue to apply reasonable and proportionate allocation methodologies, provided these are:

- based on available data;

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- consistently applied; and
- clearly documented and evidenced.

1.44 As the framework is principles based, it recognises that boundaries between activities may require judgement. TOs are expected to:

- apply classification consistently across similar activities;
- use structured decision rules where appropriate; and
- maintain clear documentation to support and explain classification and allocation decisions.

### **g) Risk and Contingency reporting requirements**

1.45 While risk and contingency (R&C) reporting is not currently part of the RIIO-ET2 annual reporting framework, it has been identified as an area for future development, as reflected in our RIIO-3 Final Determinations, where we set out our intention to work with TOs to enhance reporting through more structured, scheme-level data collection on risk sources and to move away from flat allocations towards approaches that better reflect scheme characteristics.<sup>13</sup>

1.46 We have already undertaken initial engagement with TOs on the rationale for, the potential form of, and the emerging scope of reporting requirements in this area.

1.47 Building on this, we propose to introduce a requirement for TOs to report both forecast and outturn R&C costs at scheme level across the RIIO-ET3 price control period. We see value in a more structured approach to collecting data on risk sources at scheme level, to better reflect characteristics such as size, complexity, maturity and intervention type. This will enable us to better assess the extent to which these costs are within the control of TOs, and whether they may be more appropriately compensated through alternative mechanisms within the price control.

### **h) Full Time Equivalent reporting requirements**

1.48 We have introduced a new requirement for reporting Full Time Equivalent (FTE) headcount, including separate visibility of Major Project office support functions. This aims to improve transparency on workforce drivers of costs and support more robust benchmarking and future cost assessment.

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<sup>13</sup> See paragraph 5.30 of the Electricity Transmission Annex published 4 December 2025: [RIIO-3-Final-Determinations-ET.pdf](#)

## i) Reporting burden, practicality and general updates

- 1.49 We have also proposed to enhance the overall functionality of the RRP template (for example incorporating more automation and reduce duplicated data entries), improve the clarity of the accompanying guidance, and to better reflect the structure of the funding provision within the RIIO-ET3 framework. The proposed framework also reflects feedback received through developmental engagement to date with the TOs.
- 1.50 The totex, cost and allowance summary sheets have been streamlined to improve readability and consolidation. We have included additional summary sheets to collate expenditure and allowances related to Major Projects. Regarding the enhanced reporting for Indirects, we have introduced automation where possible to reduce duplication of reporting.
- 1.51 We will continue to review all opportunities to improve both the efficiency and effectiveness of the annual reporting process with the TOs. We are aware that TOs are actively considering improvements to their own systems which could support further improvements that can be made within the boundaries of existing data systems architecture. Longer term this may extend to more fundamental changes to the way we collect, process and present data on TOs' performance, moving towards the goal of a more automated system and process.
- 1.52 Please note that the Operational Transport PCD tab is currently included as a placeholder and will require further development, including alignment and integration with the revenue workbook. We recognise the importance of ensuring that any proposed approach is proportionate and operable. As such, we intend to engage with companies on an ad hoc basis to further discuss the proposal and gather views before reaching a final decision in November. We aim to share the Operational Transport PCD licence tab ahead of the consultation close date in August, and there will be opportunities to engage further through working groups and/or GitLab in September and October.

## j) Revenue and innovation worksheets

- 1.53 This consultation focuses on proposed changes to the C&V data templates and associated guidance only. Revenue worksheet information, used to update the Price Control Financial Model (PCFM), is not within scope of this consultation. The development of the financial worksheets within the RRP template is being progressed separately through a parallel workstream.<sup>14</sup>

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<sup>14</sup> See footnote 4.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- 1.54 We expect to refine both the structure and supporting guidance following initial implementation of the updated revenue worksheets. This will help ensure consistency with the C&V framework and that the interaction between C&V data and the financial worksheets is clearly defined, consistent, and operationally workable for TOs.
- 1.55 Similar to the approach taken for revenue worksheets, work on the Innovation Measurement Framework (IMF) worksheets is being progressed separately and is subject to a distinct development process in partnership with the Energy Network Association. This work is expected to be completed in the coming months with stakeholder consultation, rollout, and training planned ahead of September 2026 to enable testing using real data. Proposals for the inclusion of IMF tables within the RRP across all sectors will be consulted on as part of the normal regulatory cycle in early 2027.

## **Way Forward**

- 1.56 For the avoidance of doubt, if implemented, the proposals will take effect immediately and require the data submitted from July 2027 onwards (in respect of the 2026-27 reporting year) to comply with the RRP requirements as modified in accordance with our published Decision.

## **Consultation stages**

- 1.57 The key stages of our engagement, development and decision-making process is summarised below.

**Stage 1** Stakeholder engagement and working group discussion: March to June 2026

**Stage 2** Consultation opens: 30 June 2026

**Stage 3** Deadline for responses: 25 August 2026

**Stage 4** Responses reviewed and further engagement: August to October 2026

**Stage 5** Decision: November 2026

- 1.58 We note that a further opportunity for consultation and refinement will be available through the normal regulatory reporting cycle in advance of the final 2027 data submission. This process will enable the reporting structure and supporting guidance to be updated, where appropriate, to reflect the operation and integration of the final revenue and IMF worksheets and any implementation learning identified through initial application later this year (the Annual Iteration Process). We will utilise this process to support further clarification and refinement ahead of final submission.

## **How to respond**

- 1.59 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.
- 1.60 We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.61 We will publish non-confidential responses on our website.

## **Your response, data, and confidentiality**

- 1.62 You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.63 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.
- 1.64 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 3.
- 1.65 If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## 2. Proposed Reporting Framework

This chapter provides further detail on the key arrangements within the proposed annual regulatory reporting framework for use in the RIIO-ET3 price control period. Views are invited on all areas.

- 2.1 The RIIO-ET3 reporting framework is designed to improve transparency, consistency and comparability of cost reporting across TOs, while recognising the practical constraints of existing systems and data structures. The key arrangements proposed to support delivery of this objective are set out in the section below.
- 2.2 To support the consistent and transparent application of the RIGs activity-based framework, we are introducing a number of clarifications to codify how existing principles should be applied in practice. These provide additional structure and decision-making logic in areas where ambiguity has previously arisen.
- 2.3 As part of this, the appendices include supplementary information intended to illustrate, step-by-step, how activities should be assessed. We welcome industry input to further develop these supporting materials and tools to complement the formal RIGs guidance by improving usability, consistency and repeatability in application, without changing the underlying principles.
- 2.4 We are also introducing requirements to reflect new concepts and features within the RIIO-ET3 framework. In all cases, the established RIGs activity-based hierarchy will continue to apply.

### Key proposals

#### New developments: ASTI and other Major Projects

- 2.5 Under RIIO-ET2, information relating to ASTI-type activity has primarily been provided through event-driven submissions, including:
  - Pre-Construction Funding (PCF) re-openers;
  - ASTI re-opener submissions; and
  - ASTI Output Delivery reporting and assessment.
- 2.6 These submissions have provided detailed information at specific points in time, including cost forecasts and outturn, delivery plans and milestones, and evidence of outputs and progress. However, this information has been provided at discrete

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

trigger points, rather than on a routine basis, and has not been structured around a consistent, activity-based reporting framework across TOs.<sup>15</sup>

- 2.7 The existing RRP template was developed to support the RIIO-ET2 price control and therefore pre-dates the introduction of the ASTI framework. As a result, it was not designed to capture ASTI-related activity in a consistent or integrated way. Reporting arrangements for ASTI activity have consequently developed incrementally through a combination of re-opener submissions and supplementary reporting exercises, with TOs adopting different approaches to reflect specific reporting requirements and available data.
- 2.8 As ASTI allowances and delivery have become increasingly material, this lack of consistency presents a risk to transparency, comparability and regulatory assurance. The transition to RIIO-ET3 therefore provides an opportunity to strengthen how ASTI-related activity is captured within the regulatory reporting framework.
- 2.9 The RIIO-ET3 RRP framework does not introduce a separate ASTI reporting regime. Instead, it ensures that ASTI-related activity is reported consistently within the existing RIGs and RRP structure, based on the nature of the underlying activity. In particular:
- all activity is captured within standard RIGs cost classification categories;
  - costs, outputs and delivery are reported through existing RRP tables; and
  - activity is identified through activity-level tagging and linkage, rather than separate reporting categories.
- 2.10 The key change is therefore not the introduction of new categories, but an improvement in:
- consistency: common classification rules applied across TOs;
  - visibility: clearer identification of ASTI-related activity within existing data;
  - comparability: improved ability to compare activity, cost and outputs across TOs; and
  - traceability: clearer linkage between activity, costs, outputs and assets.
- 2.11 Through engagement with TOs, we have made targeted amendments to both the RRP template and the RIGs to support the consistent collection of cost and volume information associated with ASTI delivery.
- 2.12 Our proposed approach is to anchor ASTI reporting firmly within the existing RIGs framework, avoiding the creation of ASTI-specific reporting categories or

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<sup>15</sup> In RIIO-ET2, population of information was also permitted via the 'Pipeline Log', allowing information to be provided to fulfil the need for ASTI expenditure to be reflected in the revenue sheets and used as a source for the PCFM.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

alternative classification approaches. Reporting must be driven by the nature of the underlying activity, rather than the funding mechanism or approval route through which the activity was authorised.

2.13 The RIGs and RRP templates remain the authoritative basis for cost classification, allocation and reporting. ASTI-related activity under RIIO-ET3 must therefore be reported within the established activity-based hierarchy, including:

- Direct and Indirect costs (based on physical asset interaction or construction-defining outputs);
- Indirect costs split between CAI and Business Support (based on whether the activity directly supports delivery of a specific scheme); and
- Further categorisation within CAI (Very / Other) and Internal / External, where applicable.

2.14 Where there is any apparent tension between funding constructs (including ASTI, PCF or ECF) the RIGs cost classification based on the nature of the activity takes precedence.

2.15 We consider that the proposed approach provides a proportionate and consistent basis for reporting ASTI-related activity within RIIO-ET3, while improving transparency, comparability and alignment with the wider regulatory framework.

### **TO views**

2.16 We are aware that some TOs have highlighted a preference for “PA” submission documentation to be used as the basis for table structure and as a starting point for minimum reporting requirements within the C&V RRP worksheets.<sup>16</sup>

2.17 Concerns have also been raised regarding the alignment between PA submissions and the proposed reporting framework for Major Projects. It has been noted that allowances determined on a different structural basis to the RRP may, in the absence of clear mapping, reduce clarity and transparency in cost reporting and hinder consistent comparison of performance across TOs, potentially leading to differing interpretations of allowances.

2.18 Feedback from the TOs also identified that, from a practical application perspective, it may be helpful to begin by distinguishing between ‘Major Project’ and ‘non-Major Project’ activities as an initial step when navigating the reporting framework.

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<sup>16</sup> “PA” is not a formally defined regulatory concept in Ofgem documentation, it is shorthand for Programme / Project Authority. ASTI decisions refer to approvals, conditions, milestones and outputs that TOs then consolidate into what they colloquially call PA documents. PA documentation reflects a formal record of our decisions to allow a defined set of ASTI activities to proceed. The activity of project assessment informs a PA decision, but a PA document is not itself “the assessment”.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

2.19 The above point reflects the view of TOs that ASTI projects are subject to distinct funding and approval arrangements, including the use of ECF , which can influence how activities are understood, structured and managed in practice, particularly at early stages of classification and reporting.

### **Our initial views**

2.20 While we recognise the value of PA documentation in supporting funding decisions, including providing context on the needs case, proposed scope, and the conditions attached to approval, these documents are inherently project-specific. They are developed to support one-off investment decisions and are tailored to individual project circumstances and levels of maturity.

2.21 We note that PA documentation plays an important role in explaining why ASTI funding decisions have been made. However, it is not suitable as a foundation for regulatory reporting, as it is not designed to provide a repeatable or standardised structure for annual cost reporting, nor is it aligned with the activity-based cost classification framework set out in the RIGs. Reliance on PA structures would therefore undermine consistency, reduce comparability across TOs and over time, and increase reconciliation and audit risk, reflecting the variation in structure, terminology, cost breakdowns and underlying assumptions across projects and TOs.

2.22 Differences in project characteristics should not prevent the consistent application of activity-based reporting, as TOs are expected to have sufficient understanding of how costs are incurred and should support a harmonised approach to reporting across similar activities.

2.23 We therefore propose that PA structures should not be used as the primary framework for reporting ASTI-related costs, outputs or assets. While PA documentation may provide useful supporting context, it should be used only for explanatory or reconciliation purposes (for example, to explain changes in allowances or to link activities to specific approval milestones) and must not drive the structure of regulatory reporting.

2.24 We recognise specific concerns raised on the potential for inconsistent reporting and performance assessment across TOs and agree on the importance of ensuring consistency and transparency in the reporting of Major Projects.

2.25 The inclusion of Major Projects within the proposed RIGs framework is intended to provide a consistent, activity-based approach to reporting actual expenditure across the full portfolio, rather than to replicate the structure of allowances set through the PA process. As noted above, PA submissions and RRP reporting serve distinct and complementary purposes, and direct structural alignment between the two processes is neither expected nor required. This reflects the fact that PA

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

submissions are designed to support ex-ante funding decisions for individual projects, often using project-specific evidence, whereas RRP reporting is intended to provide a consistent view of how expenditure has actually been incurred across activities and outputs. Accordingly, differences between the structure of PA allowances and reported expenditure categories are expected and do not, in themselves, indicate inconsistency or misreporting.

- 2.26 This approach is also consistent with the treatment of other re-opener mechanisms, where the structure used to assess and approve funding does not necessarily mirror the structure used for ongoing regulatory reporting of actual expenditure. In practice, this allows expenditure to be reported consistently across activities and outputs, regardless of how funding allowances were originally defined.<sup>17</sup>
- 2.27 We have separately shared supplementary mapping approaches with TOs in advance of this consultation. These are intended to enhance transparency in how allowances align with RRP reporting categories, while maintaining the underlying activity-based integrity of the RIGs framework.
- 2.28 While the reporting framework has been developed with the ASTI framework as a primary reference point, the overall approach is expected to be applicable more widely to other Major Projects delivered within the broader CP2030 policy context.
- 2.29 On the practical application of the proposed reporting requirements, we acknowledge that an initial distinction between ‘Major Project’ and ‘non-Major Project’ activity may provide a useful high-level entry point for applying the framework in a consistent manner. We agree that this approach could support a pragmatic pathway for initial implementation, particularly in the early years of RIIO-ET3. We therefore invite further stakeholder views on how such an approach could operate in practice, including any implications for reporting consistency, data availability, and implementation effort.
- 2.30 However, it is important to emphasise that the use of such an initial distinction does not affect the underlying cost classification outcome. In all cases, activities must be classified in accordance with the RIGs activity-based hierarchy, based on their nature and outputs, irrespective of whether they fall within Major Project programmes or the core RIIO-ET3 portfolio.

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<sup>17</sup> Examples of other re-opener mechanisms where the funding assessment structure differs from ongoing expenditure reporting include: Net Zero re-openers, Load Related re-openers, and Cyber resilience re-openers.

## New developments: interaction between PCF, ECF and EEW

2.31 The RIIO-3 framework introduces and further develops specific categories of activity (PCF, ECF and EEW) that must be captured and clearly articulated within the RIGs, including how these activities interact.

2.32 We have clarified the interaction between PCF, ECF and EEW to ensure that costs are reported on a consistent and comparable basis across TOs, supporting transparency and auditability, and maintaining alignment with established RIGs principles, regardless of funding route or internal cost capture arrangements.

- **Direct:** Activities involving physical work associated with delivery of the asset, or activities producing construction-defining outputs relied upon to execute construction or installation in practice, must be classified as Direct. Examples include site clearance, construction-defining ground investigations, construction of access roads or enabling works, and installation of foundations or equipment.
- **CAI:** Non-physical, scheme-specific activities that directly support delivery must be classified as CAI (Very or Other).<sup>18</sup> Examples include project management, functional or non-construction-defining engineering design, environmental assessments, planning applications, programme controls, or scheme-specific delivery coordination or contractor management activities.

For the avoidance of doubt, engineering or design activity must be classified as Direct where the outputs relied upon to execute construction or installation in practice. This may include activities such as detailed installation design, executable layouts, construction sequencing methodologies or foundation design.

- **Business Support:** Activities that support delivery at a corporate, portfolio, programme or framework level, but are not directly attributable to the delivery of a specific scheme or asset. Classification is determined by the underlying nature and attribution of the activity rather than organisational ownership or contractor structure.

2.33 The key elements of how the RIIO-ET3 reporting framework apply to PCF, ECF and EEW activities are set out below.

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<sup>18</sup> CAI Very includes scheme-specific, non-physical activity that develops delivery strategy, functional solution definition, procurement-ready specification, technical planning or delivery coordination, but does not yet produce outputs relied upon to physically construct or install delivery of the asset in practice. “CAI Other” activities are generally procedural, repeatable, follow an established approach (rather than involving judgement), and support implementation of agreed delivery approaches.

## Consultation Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- PCF and ECF are funding mechanisms and are not a formal activity classification within the RIGs. They do not determine cost classification.
  - PCF is commonly used to describe early-stage development activities (for example feasibility, consenting work, optioneering). All activities funded through PCF must be reported in line with the RIGs activity-based cost classifications, determined by the nature of the activity (such as CAI where scheme-specific).
  - ECF typically relates to early construction-phase activities such as procurement, mobilisation, detailed design refinement, early site preparation, and initial works packages ahead of full construction. These activities must be reported in line with the RIGs activity-based cost classifications, determined by the nature of the activity (for example Direct where physical works are undertaken, or CAI where activities are non-physical but scheme-specific).

For procurement-related activity, classification should distinguish between preparatory procurement support activity and commitment to physical delivery activity. Procurement strategy development, supplier engagement, framework establishment and reservation activity would not normally be classified as Direct unless the activity results in commitment to physical manufacture, configuration or delivery of the asset in practice.

Where procurement activity initiates committed manufacture, asset configuration or executable delivery outputs relied upon for physical construction or installation, the activity should normally be classified as Direct.

- EEW is not a separate reporting category, but an activity descriptor (or “flag”) applied in addition to the underlying activity-based cost classification. It applies only where:
  - activities are classified as Direct;
  - the activity must involve physical work associated with construction delivery; and
  - the activity must physically enable construction to take place without forming part of the final asset.

Although activities may take place before the main construction phase begins, qualifying EEW activity forms part of physically enabling delivery of the asset in practice.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

2.34 We recognise that the term “early enabling” may operationally be used to describe a broader package of activities associated with preparing projects for construction (meaning progressing towards a build-ready state). Such activity packages may contain a combination of:

- Direct physical enabling works;
- scheme-specific non-physical support activity; and
- broader governance or portfolio support activity.

2.35 Where broader “early enabling” activity packages contain a mixture of Direct, CAI and Business Support activity, TOs should separately classify the individual components in accordance with their underlying nature on a reasonable and proportionate basis.

2.36 However, only the qualifying Direct physical enabling component should receive the EEW reporting flag for regulatory reporting purposes.

2.37 These clarifications are intended to improve consistency and comparability across TOs, while maintaining flexibility to reflect differences in delivery models and data availability.

2.38 To facilitate comparison of expenditure against the relevant funding mechanisms, there will be reported flags used to indicate whether costs relate to advanced funding mechanism PCF or ECF (for ASTI projects). These flags will sit alongside, and should not affect, the underlying cost classification.

### **TO views**

2.39 TOs have highlighted complexity in distinguishing between PCF and ECF activities in practice, particularly where activities evolve over time or contain both physical and non-physical elements within a single work package.

2.40 Concerns have also been raised about the potential reporting burden associated with splitting activities and the interaction with existing cost capture systems.

2.41 We also recognise TO feedback that, from a reporting perspective, activities are often instinctively associated with defined stage-gates during phases of the project development cycle. The general phases involve early development, detailed development / construction preparation, construction and then testing and completion. These stage-gates are used as a natural dividing line in how projects are managed.

2.42 TOs have also noted that operational delivery terminology (including the use of terms such as “early enabling”) is often used to describe broader packages of preparatory activity associated with progressing projects towards construction

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

readiness. These packages may legitimately contain a combination of Direct physical enabling works, scheme-specific non-physical support activity and broader governance or programme support activity.

2.43 TOs highlighted that this operational grouping does not always align neatly with the activity-based RIGs classification framework. In particular, concerns were raised that packages could be incorrectly interpreted as entirely Direct or EEW-related unless clearer guidance is provided regarding:

- the distinction between EEW activity packages and the EEW reporting flag;
- the role of CAI and Business Support activities within broader enabling packages; and
- treatment of mixed activity packages.

### **Our initial views**

2.44 We consider that the distinction between funding mechanisms and activity-based cost classification is fundamental to ensuring consistency and transparency in annual reporting.

2.45 Through engagement with TOs, a common theme has been the need to anchor application of the RIIO-ET3 reporting framework more explicitly in the established activity-based principles underpinning the PCF framework (that is helping distinguish development-focused activities from construction and delivery-related activities), as the shared starting point for cost classification.

2.46 We agree that grounding the framework in these activity-based principles supports alignment, shared understanding and consistency of application. The RIGs therefore continue to rely on the core activity-based logic underpinning the PCF framework, namely that classification is determined by the underlying nature, purpose and outputs of the activity rather than funding route, operational terminology or project stage.

2.47 Building on this foundation, we consider it helpful to apply the framework through a series of structured steps, moving from high-level categorisation to more detailed classification in a consistent and standardised way across all TOs. This is intended to provide a more pragmatic and transparent pathway through the classification process, including treatment of mixed activity packages, while remaining fully aligned with the established RIGs hierarchy.

2.48 We also note that the requirement to split mixed activities reflects established RIGs principles and is necessary to ensure that reported costs accurately reflect the underlying nature and outputs of the relevant activity.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- 2.49 We recognise that modern transmission engineering and delivery activities are frequently iterative and may simultaneously influence procurement, constructability, systems integration, outage strategy and delivery sequencing. Accordingly, certain delivery-shaping engineering or technical planning activities may appropriately classify as CAI Very where outputs support solution development, technical coordination or delivery preparation, but are not yet relied upon to execute construction or installation in practice.
- 2.50 As such, we acknowledge that precise disaggregation may not always be practicable. In such cases, TOs are expected to apply a proportionate, evidence-based approach, supported by consistent methodologies, supporting rationale and clear documentation.
- 2.51 We recognise that portfolio-level and strategic delivery support activities arise frequently within modern transmission delivery models and may not always align neatly with traditional corporate overhead concepts. Accordingly, Business Support should not be interpreted narrowly as administrative or purely corporate support activity, but more broadly as including portfolio, programme, framework and strategic delivery support activities that are not directly attributable to the delivery of a specific scheme.
- 2.52 This may include activities such as strategic procurement frameworks, supply-chain readiness, central engineering governance, portfolio mobilisation support, corporate environmental frameworks, programme-wide assurance functions and unsupported contractor overhead activity.
- 2.53 Further explanation of how TOs should identify and apply the EEW reporting flag within the RIGs activity-based hierarchy, including treatment of broader “early enabling” activity packages containing mixed Direct, CAI and Business Support activity, is provided in Appendix 2.
- 2.54 In relation to the use of stage-gates in reporting, we acknowledge that a timing-based approach may align with TOs’ internal project management processes. However, timing within the project lifecycle is not a reliable indicator of the underlying nature, purpose or outputs of an activity. Activities undertaken at similar project stages may produce fundamentally different outputs and therefore require different classification treatment under the RIGs activity-based framework.
- 2.55 The proposed RIIO-ET3 reporting framework therefore does not adopt stage-gated or timing-based classification rules. Instead, classification must be determined based on the nature, purpose and outputs of the activity, in line with the established activity-based hierarchy.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- 2.56 Project stage-gates or operational delivery terminology (including the use of terms such as “early enabling”) may remain useful reference points for internal project management processes but should not be used as a substitute for activity-based classification or the application of the EEW reporting flag.
- 2.57 If cost classification depended on timing, identical activities would be reported differently simply because they occurred earlier or later in the project. This would undermine consistency and comparability across TOs, as differences in project sequencing or internal stage-gate definitions would drive variation in reported costs rather than underlying activity. This could weaken the consistency, comparability and robustness of evidence used to support delivery benchmarking and the development of future price control frameworks.

### **New developments: Asset linkage and lifecycle cost visibility**

- 2.58 We have introduced additional clarification on the requirement for costs to remain linked to the underlying asset or scheme they support throughout the project lifecycle.
- 2.59 All activities, including pre-construction, enabling works and construction phase activities, must retain a clear and consistent linkage to the asset they contribute to, regardless of timing, funding route, or delivery model.
- 2.60 This includes ensuring that:
- early stage development and enabling costs are not detached from the assets they enable;
  - costs remain traceable across project stages; and
  - lifecycle cost visibility is preserved for monitoring and benchmarking purposes.
- 2.61 Where activities support multiple assets or schemes, TOs may apply a reasonable and proportionate allocation methodology, provided that:
- the approach is consistently applied;
  - reflects the underlying cost drivers; and
  - is clearly documented and supported by appropriate evidence.

### **TO views**

- 2.62 TOs have noted challenges in maintaining consistent asset linkage where activities are undertaken at a portfolio level or where internal systems do not fully align with asset level reporting structures.

### **Our initial views**

- 2.63 Maintaining asset linkage is essential to ensuring comparability across TOs and over time, and to enabling robust assessment of total asset costs.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- 2.64 The approach does not require fundamental changes to internal systems in the short term, but TOs should ensure that reasonable mapping and allocation processes are in place to support traceability.
- 2.65 Over time, we expect improvements in system capability to enhance the accuracy and efficiency of asset level reporting.

### **New developments: Risk and Contingency (R&C) reporting requirements**

- 2.66 We propose to introduce a requirement for TOs to report forecast and outturn R&C costs at scheme level across the RIIO-ET3 price control period.
- 2.67 This includes the collection of structured data on risk related expenditure, with all costs assigned to defined risk categories that reflect the proximate driver of the spend.

### **TO views**

- 2.68 NGET and SHET have made progress in mapping their internal Risk Breakdown Structure (RBS) categories to the proposed risk categorisation. SPT shared its RBS for strategic projects which captures both causes and consequences of risks. It stated there are multiple valid approaches to categorising risk and favoured an approach that would be granular enough to be informative without becoming a proxy risk register. However, concerns were raised that the categories provided may not fully capture the range of risk drivers observed in practice, with some TO-specific categories not aligning directly with those proposed.
- 2.69 TOs also highlighted the potential reporting burden associated with providing R&C data across the full portfolio, noting that existing systems and processes are not currently designed to support this level of reporting. NGET mentioned potential duplication of reporting where risks for ASTI projects are already discussed through a separate workstream.
- 2.70 In addition, concerns were raised regarding the feasibility of reporting historical risk costs for projects already in flight and for reporting requirements to be proportional to project size and scope. It was recommended to introduce a materiality threshold and phased approach taking a sample of schemes for the first year of reporting to test viability before rolling out to the full scheme portfolio.
- 2.71 TOs noted that risk related expenditure is not always separately identifiable and may be embedded within baseline project costs, particularly where risk has been managed or mitigated without drawing explicitly on contingency allowances.
- 2.72 It was further highlighted that recorded R&C values may not provide a complete or consistent representation of total risk exposure, and that the inherently uncertain

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

and volatile nature of risk may limit the suitability of such data for use in future allowance setting.

### **Our initial views**

- 2.73 We recognise that implementation of this requirement will require the development of new processes and enhancements to existing systems. As such, we expect that risk data collection, and reporting will need to follow a phased approach which applies a materiality threshold on schemes in scope and limits retrospective system changes, and quality of reporting will improve over time.
- 2.74 We also recognise that reported R&C data may not fully capture the totality of risk-related costs, particularly in relation to where costs related to risk mitigation activities are reported elsewhere (for example, within pre-construction works). The accompanying narrative will therefore play a critical role in contextualising the reported data, including explaining how risk is identified, managed and allocated, setting out any limitations in the data, and providing insight into material changes and differences between forecast and outturn.
- 2.75 In response to initial feedback, we have refined the proposed risk categorisation and will continue to work with TOs to improve the structure and applicability of categories over time. We see value in moving away from a flat risk allocation towards a more scheme-specific framework that better reflects key scheme characteristics, such as size, complexity, maturity, and intervention type. Improved data collection in this area could support a more informed understanding of the extent to which these costs are within the control of TOs and help inform whether alternative approaches to remuneration within the price control may be appropriate.
- 2.76 While recognising that risk is inherently uncertain and subject to change, we consider that improved and more structured reporting of R&C data will provide valuable insights over the RIIO-ET3 period. We expect the data to reflect the dynamic nature of risk, including changes in forecasts, emerging risks and variations between forecast and outturn expenditure.
- 2.77 The primary purpose of this data collection is to improve our understanding of risk drivers and cost controllability, rather than to introduce mechanistic adjustments or reopen allowances during the period.
- 2.78 The scope of this requirement covers capital expenditure projects, including Major Projects such as ASTI. While separate processes are in place for reporting emerging risks, such as sharing of project-level risk registers at funding approval, we do not consider this to duplicate existing reporting. The reporting table focuses on outturn risks and supports a standardised, quantitative approach to risk reporting.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- 2.79 Following feedback, we propose to introduce a £10m scheme-level materiality threshold alongside a phased approach for the first year of reporting. This threshold would focus reporting of higher-value schemes whilst supporting transparency on material drivers of risk. We initially proposed £1m scheme-level threshold and SHET suggested £5m to £10m would be a more proportionate level across its portfolio. We have selected an initial threshold of £10m, at the higher end of the range considered, as a means of phasing the first year's initial reporting exercise. The same threshold for all TOs also serves as an objective selection of schemes without requiring TOs to select a sample. As part of this phased approach, for projects already in flight at the start of RIIO-ET3, we expect a pragmatic approach to reporting, recognising potential data limitations and avoiding retrospective reconstruction where this would be disproportionate. We may consider lowering the threshold or extending reporting requirements to the full portfolio in subsequent years, informed by evidence from early implementation and the maturity of reporting processes. We welcome stakeholder views and evidence on the expected coverage of its portfolio under the proposed materiality threshold.
- 2.80 More generally, we recognise that not all information may be available for the first annual submission, for example where data cannot yet be extracted from internal systems or aligned to the requested format without further attribution or allocation. We will continue to engage with TOs to understand when such information will become available. Where information is incomplete at submission, we expect TOs to clearly set out the reasons for this and the steps being taken to address any gaps.

### **New developments: Full Time Equivalents**

- 2.81 We have introduced reporting on TO headcount within a new Full Time Equivalents (FTEs) worksheet. This reports FTEs on an annual basis, allocated across high-level cost categories. We are also proposing a separate memo table to report any dedicated office functions specific to Major Projects.
- 2.82 We have considered the option of aligning FTE reporting with the Office for [National Statistics' Standard Occupational Classification \(SOC\) framework](#).<sup>19</sup> This mirrors the approach used in Electricity Distribution reporting under RIIO-ED2 and could, in future, support the application of more granular real price effects (RPE) indices linked to specialised labour costs.

### **TO views**

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<sup>19</sup> [SOC 2020 - Office for National Statistics](#)

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

2.83 Some TOs have raised concerns about the comparability of FTE reporting. For example, differences in organisational structures, delivery models and outsourcing arrangements may lead to inconsistencies in application.

2.84 TOs have expressed general support for the introduction of SOC codes, and one TO has provided initial suggestions for codes more closely aligned with the ET sector.

### **Our initial views**

2.85 We consider value in introducing FTE reporting, even at a high level, on an ongoing basis. This would deliver consumer benefits by enabling cost models to be updated with actual data, both for future allowance setting and for in-period benchmarking.

2.86 The separate reporting of Major Project office functions will provide additional visibility of operational resource requirements across TOs and may support consideration of alternative approaches to funding business support costs across the portfolio in future. We welcome feedback on the proposed high-level FTE reporting, and suggestions on how potential inconsistencies (for example, those arising from different outsourcing models) could be mitigated.

2.87 In relation to SOC reporting, TOs are best placed to assess their labour force and are encouraged to work collaboratively to propose a suitable set of SOC codes for the ET sector. However, TOs should remain mindful of the level of detail introduced, and we advise limiting categorisation to the 'unit group' level (that is to four-digit codes).

### **Removal of requirements**

2.88 RIIO-3 Final Determination has withdrawn certain delivery incentives, which have been overridden by new incentives requiring fresh monitoring arrangements, and modified existing mechanisms in ways that require updates to the RRP and RIGs. Some reporting requirements or incentives which have been removed include:

- NIS Cyber Resilience;
- Visual Amenity;
- Environmental Scorecard;
- Quality of Connections Satisfaction Output Delivery Incentive (ODI); and
- Net Zero Reopener and UIOLI.

### **Clarifications: reporting burden and existing data structures.**

2.89 TOs have highlighted that many of the proposed reporting concepts for RIIO-ET3, particularly in relation to PCF and CAI costs, while not new in practice are often

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

embedded within existing cost capture and allocation approaches. In particular, engagement has noted concern that:

- cost data is frequently recorded at an aggregated level within financial systems and contractor arrangements;
- activities delivered under a single contract or work package may include a mix of Direct and Indirect elements that are not separately identifiable at source; and
- existing reporting approaches (including percentage-based allocations and scheme-level apportionments) reflect how costs are managed and evidenced in practice.

2.90 As a result, some TOs are concerned that the proposed framework may imply a need for additional disaggregation or changes to existing systems.

2.91 TO feedback also identifies that, from a practical application perspective, a pragmatic pathway for initial implementation, particularly in early years of RIIO-ET3, will allow the transition to the RIGs framework.

### **Our initial views**

2.92 We recognise these concerns and have designed the RIIO-ET3 reporting framework to work with, rather than replace, existing TO cost structures and systems. The framework does not seek to impose new accounting constructs, redesign internal systems, or require costs to be captured differently at source.

2.93 Instead, the purpose of the framework is to provide a consistent, activity-based interpretation layer over existing data, enabling costs to be classified and reported in a more transparent and comparable way across TOs.

2.94 In particular:

- TOs are expected to use existing cost data, records and management information wherever possible when applying the RIGs.
- The mapping approach and decision tools set out in the accompanying guidance are intended to support consistent interpretation, not to require fundamental changes to how costs are captured or structured internally.
- Where costs are not separately identifiable, such as in mixed activity packages or contractor arrangements, TOs may apply reasonable and proportionate allocation methodologies, consistent with existing practices.
- The framework does not require artificial or speculative disaggregation where this would not be meaningful or supported by underlying data.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- 2.95 The introduction of structured mapping logic, decision trees and evidence expectations is intended to support clarity, consistency and auditability, rather than to create new reporting burdens or require the redesign of internal systems.
- 2.96 Over time, as systems and data visibility evolve, we expect TOs to improve the granularity and robustness of reporting where practicable. However, the application of the framework in the near term should reflect the practical realities of existing data availability, with a proportionate and evidence-based approach to cost classification and allocation.
- 2.97 Furthermore, we recognise that TOs may be at different stages of readiness in terms of systems, data granularity and internal mapping to the RIGs framework. In light of this, we consider that the first year of RIIO-ET3 reporting should take a pragmatic approach, focusing on establishing consistent interpretation and application of the core principles, supported by reasonable and proportionate methodologies, while clearly documenting assumptions, allocation approaches and any limitations.
- 2.98 Over time, we expect this to evolve toward greater consistency, improved data granularity and more standardised application across TOs, supported by further refinement of guidance and shared industry learning.

### **Clarifications: Contractor Indirect costs**

- 2.99 Indirect activities are those that support work on network assets but do not involve physical interaction with those assets. The sub-category “Contractor Indirects” (CIs) refers to costs incurred for such activities when they are performed by external third parties on behalf of the TO, or by agents engaged to deliver specific services under the TO’s instruction.
- 2.100 Under the RIGs, TOs are required to classify these costs according to the activity they support, typically as CAI where scheme-specific, or as Business Support where not, rather than treating them as direct costs.
- 2.101 The associated reporting requirements are as follows:
- Activities that form part of a contractor’s own overhead (for example internal staff training) should not be reported as TO indirects;
  - CI costs should be identified, where possible, where contractors undertake activities that support network delivery without direct physical work on assets (such as project management or planning); and
  - While some activity may be embedded and full disaggregation not always practicable, TOs are expected to use reasonable endeavours to

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

disaggregate costs when providing data. Where detailed breakdowns are unavailable, proportionate allocation methods may be used. In such cases, TOs should be able to explain the basis of allocation and ensure methodologies are reasonable, documented, and consistently applied. However, while disaggregation is not required where it cannot be reasonably produced from existing systems without disproportionate effort, the use of aggregated reporting should be a considered outcome, not a default.

### **TO views**

- 2.102 The core issue to date (within ET2) has been a perceived ambiguity in the application of the RIGs and associated RRP reporting requirements in respect of CI costs.
- 2.103 TOs have highlighted challenges in consistently distinguishing between Direct costs, CAI, and Business Support where contractor invoices and internal systems do not disaggregate costs to the level required for regulatory reporting. In practice, contractor pricing structures often incorporate overheads, management costs, and shared services within blended rates or lump-sum charges, making it difficult to identify the underlying cost drivers.
- 2.104 As a result, TOs have relied on allocation methodologies or assumptions to apportion costs across categories, creating variability in interpretation and concerns around consistency, auditability, and proportionality of effort relative to the granularity of available data.

### **Our initial views**

- 2.105 Under RIIO-ET3, we are not proposing a change to the underlying concepts or definitions governing the treatment of CIs. Our approach has been to reinforce that cost classification should be determined based on the nature of the underlying activity, rather than the structure of contractor invoices or the form in which costs are presented.
- 2.106 Instead, we propose changes to the structural positioning of CI costs within the RRP template. In particular, CI costs must no longer be reported within the C&V 'Direct' worksheets but will instead be mapped in accordance with their underlying activity (for example, under CAI) and, where appropriate, attributed at scheme level.
- 2.107 This change is intended to provide greater clarity and consistency in how CI costs are presented, while remaining aligned with the existing activity-based framework. While it does not require a fundamental redesign of TOs' internal cost capture systems, it is likely to require changes in reporting processes, including

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

the application of reasonable and proportionate allocation methodologies where costs are not separately identifiable.

- 2.108 Over time, and where practicable, we would expect TOs to seek improvements in cost visibility, including through more granular invoicing and data capture, to support more accurate classification and reporting.
- 2.109 Accordingly, CI costs should be attributed in line with the activity they support: Direct where clearly associated with physical construction, enabling works, or outputs relied upon to execute construction or installation; CAI where they support scheme-specific, non-physical activities; and Business Support where they relate to corporate or non-scheme activity.
- 2.110 The key evolution is operational: we are providing further clarification on how these established principles should be applied in practice, particularly where ambiguity has arisen (for example, in the treatment of contractor overheads, fixed-price contracts and mixed activity packages). These clarifications are intended to improve consistency, comparability and transparency in reporting, rather than to introduce new classification rules.
- 2.111 We recognise the practical limitations of contractor data and have therefore adopted a proportionate approach, allowing TOs to apply allocation methods where necessary, provided these are evidence-based, consistently applied and clearly documented. This approach seeks to balance conceptual accuracy with practical deliverability within existing systems and contracting arrangements.
- 2.112 Over time, we expect a progressive transition toward more system-based reporting as cost visibility improves.<sup>20</sup> However, TOs are not expected to achieve artificial precision where underlying data does not support it, and the use of reasonable and proportionate allocation methods will remain acceptable where necessary.
- 2.113 Consistency over time, supported by clear documentation of methodologies, assumptions and material judgements, is essential. Where contractor costs include mixed elements (for example, physical delivery and supporting services), TOs should seek to disaggregate these where practicable, or otherwise apply structured and proportionate allocation approaches that reflect the underlying cost drivers.
- 2.114 In line with wider RIGs principles, the treatment of contractor costs must reflect the nature of the underlying activity rather than the commercial structure or form of contract. Where contractor pricing includes embedded overheads, risk

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<sup>20</sup> The current CI reporting approaches adopted by each TO are summarised in our 2024–25 Annual Report: [https://www.ofgem.gov.uk/sites/default/files/2026-01/ET\\_annual\\_report\\_2024-25\\_Appendix.pdf](https://www.ofgem.gov.uk/sites/default/files/2026-01/ET_annual_report_2024-25_Appendix.pdf)

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

allowances or delivery uplifts within asset delivery contracts, these costs should remain part of Direct costs where they relate to the delivery of the asset.

- 2.115 Where contractor pricing includes embedded organisational, governance, programme support or general overhead activity that cannot reasonably be attributed to specific executable scheme delivery activity, such costs should normally be classified as Business Support unless clearly evidenced otherwise. This may include unsupported contractor overheads, framework management costs, strategic mobilisation support, portfolio oversight activity or non-scheme attributable delivery support functions.
- 2.116 Where activities are procured on a fixed-price basis, cost classification should be determined by the nature of the deliverable rather than the procurement model. This requires TOs to assess the outputs being delivered and apply the activity-based hierarchy accordingly.<sup>21</sup> Appropriate supporting evidence (such as statements of work or activity descriptions) should be retained to justify the classification adopted. This approach ensures consistent treatment across different delivery models and supports transparency and auditability.

### Clarifications to support consistent application

- 2.117 To support consistent and transparent application of the RIGs activity-based framework, we are introducing a number of complementary clarifications that codify how existing principles should be applied in practice. These do not introduce new concepts but provide additional structure and decision logic where ambiguity has previously arisen.
- 2.118 First, we introduce a two-step preliminary decision framework prior to detailed cost classification. This requires TOs to assess (i) whether an activity produces construction-defining outputs and (ii) the purpose of any design activity in terms of whether it contributes to a procurement-ready functional or system specification. This preliminary step ensures that the fundamental distinction between activities that determine how an asset will be built and those that support its development is applied consistently from the outset, before applying the standard Direct / CAI / Business Support hierarchy.
- 2.119 Second, we clarify the treatment of design activity through an explicit rule on PCF functional design visibility. Design activity classified as CAI Very may be identified as contributing to PCF functional design where it develops or refines a

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<sup>21</sup> The contractual or commercial form of procurement activity should not determine classification. Fixed-price procurement arrangements, manufacturing reservations or supplier framework structures may contain a mixture of preparatory support activity and committed delivery activity which should be assessed based on underlying outputs and delivery reliance.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

procurement-ready functional or system specification. Design activity that produces construction-defining detail or translates a functional solution into executable outputs, falls outside this scope and must instead be treated as Direct. This distinction is based on the purpose and output of the activity and applies irrespective of project stage.

- 2.120 CAI Very may also include broader scheme-specific, non-physical delivery-shaping activity that supports development of delivery strategies or construction approaches, but which does not yet produce outputs relied upon to execute construction or installation in practice.
- 2.121 This may include activities such as mobilisation planning, outage planning and integration activity, delivery strategy development, and systems integration planning. Such activities may materially shape how delivery is organised or prepared but remain CAI Very unless the outputs become relied upon to execute construction or installation, including where they define executable physical construction, installation, sequencing or configuration.
- 2.122 Third, we emphasise that that cost classification is not determined solely by whether an activity is physical in nature. Activities should be classified as Direct where they are either:
- involve qualifying physical works associated with construction delivery; or
  - produce construction-defining outputs.
- 2.123 These are independent classification tests. Direct classification may therefore arise through qualifying physical delivery activity or through non-physical activities whose outputs are relied upon to determine executable physical delivery.
- 2.124 Physicality alone is not determinative. Physical activities undertaken solely for informational, feasibility or option-assessment purposes (for example, certain feasibility-stage investigations or surveys) may remain Indirect where their outputs are not relied upon to define executable physical delivery, installation methodology or construction configuration.
- 2.125 This clarification ensures that classification is driven by the role of the activity in asset delivery, rather than superficial characteristics such as whether activities are physically intrusive or occur on site
- 2.126 Fourth, we also note that the distinction between Functional design (CAI Very) and Construction-defining design (Direct) should not be interpreted as a distinction between “early” and “late” engineering activity, nor between “design” and “construction”. The relevant distinction is instead whether the outputs are relied upon to execute construction or installation in practice.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- Functional design activities typically define solution intent, capability, procurement requirements or system performance, but do not determine executable physical installation, configuration or construction methodology.
- Construction-defining design activities are those whose outputs relied upon to execute construction or installation or safely deliver the asset in practice. This includes activities such as detailed installation design, physical layouts, interface configuration, construction sequencing, foundation design or installation methodology.

2.127 Finally, we clarify the treatment of land acquisition and long-lead procurement activities. Activities such as land purchase, option agreements, procurement strategy development, supplier engagement, reservation activity and preparatory procurement support should be classified based on their underlying nature and outputs.

2.128 Where such activities are preparatory, commercial, strategic or procurement-support in nature, and do not yet involve commitment to physical asset manufacture, configuration or delivery, they should normally be treated as Indirect (typically CAI or Business Support as appropriate).

2.129 Direct classification begins where activities involve commitment to physical asset manufacture, configuration, delivery or enable or execute construction activity in practice. This may include commencement of manufacturing, committed asset orders, physical asset configuration activity, or engineering/manufacturer outputs relied upon for physical delivery or installation.

2.130 Classification should be determined by the underlying delivery commitment and activity outputs rather than the contractual structure, procurement model or internal project stage.

### **General updates**

2.131 We have included several changes and corrections to the RRP and the RIGs to clarify reporting requirements. The reason for these changes is to align the terminology and calculations within the RIGs and RRP with the RIIO-ET3 licence to gather the relevant data to administer and monitor the RIIO-ET3 price control.

2.132 As the RIGs represent a new guidance document for RIIO-ET3, we have not provided a tracked changes version. As the Transmission Glossary is a long-standing document focusing on direct asset definitions, any changes will be shown as tracked changes. We welcome stakeholder views on whether any definitions listed require expansion, enhancement or superseded in line with the

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

RIIO-ET3 RIGs and RRP documents. We also request TOs share their updated contact persons regarding the glossary.

2.133 Overall, the proposed reporting framework aims to enhance the accuracy, consistency, and usability of the reporting materials, ensuring that the information collected continues to support effective monitoring and regulatory decision-making.

## Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this consultation. Please send your feedback to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk). We would like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?

## Appendix 1. Proposed cost classification steps

- A1.1 Cost classification answers a core question: “What is the nature of this activity in regulatory reporting terms?”<sup>22</sup>
- A1.2 It must be based on:
- the nature of the activity (not funding route or project stage); and
  - applied once only and then used consistently.
- A1.3 The following section sets out the RIGs cost classification steps that we propose will apply in the R10-3 price control period.
- A1.4 The proposed steps are applied in sequence and stop once a clear classification is identified for each activity component.
- A1.5 Identical activities should be classified consistently regardless of when they occur in the project lifecycle.
- A1.6 Where an activity contains multiple types of activity, it must be split and the tests applied separately to each component

### Classification steps

#### Step 1 – Physical works test

- A1.7 "Does the activity involve qualifying physical work associated with construction delivery (for example physically building, installing, enabling access to, or preparing for delivery of the asset)?"

**If YES: classify as Direct.**

**If NO: proceed to Step 2**

#### What qualifies as physical work?

- Groundworks (for example access roads, foundations);
- Installing physical enabling infrastructure or asset components (for example temporary welfare units, cables, towers); and
- Intrusive investigations (for example boreholes), where outputs are relied upon to define construction or installation requirements.

#### What does not qualify as physical work (typically)?

- Non-intrusive surveys;

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<sup>22</sup> “regulatory reporting terms” means how an activity is classified and reported under the RIGs (for example as Direct, CAI, or Business Support), based on what the activity actually does.

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- Design and planning activities that do not involve physical delivery works (for example route optioneering, feasibility assessments, high-level engineering studies); and
- Stakeholder engagement initiatives.

- A1.8 Physical activity is a strong indicator of Direct, although not all Direct activity qualifies as EEW. The purpose and outputs of the activity should always be considered where classification is unclear.
- A1.9 The EEW test is separate from the Direct classification test and should only be applied after the underlying Direct classification outcome has been determined. Direct activity should only be identified as EEW where it:
- involves qualifying physical enabling works associated with construction delivery;
  - physically enables construction to proceed; and
  - does not form part of the final asset.
- A1.10 Survey or investigation activity undertaken solely to support informational or feasibility-stage purposes would not normally meet the EEW definition, unless the activity also involves qualifying physical enabling works associated with future construction delivery.
- A1.11 Please note that whether an activity is classified as Direct is determined through application of the Step 1 and Step 2 tests. Direct activity may arise either through qualifying physical works associated with construction delivery or through activities producing construction-defining outputs relied upon to execute construction or installation.
- A1.12 This means that not all non-physical design activity will automatically be classified as Indirect. Non-physical activities that produce construction-defining outputs will be classified as Direct. For example, detailed installation drawings or foundation designs are non-physical activities but are Direct because they define how the asset will be physically built.
- A1.13 Similarly, intrusive activity alone does not automatically make an activity Direct. Intrusive investigations undertaken for feasibility or option assessment purposes may remain Indirect where the outputs are not relied upon to define construction. The decisive factor is whether the activity outputs are used to determine how the asset will be physically constructed.

## Step 2 – Construction-defining outputs test

A1.14 "Does the activity produce outputs relied upon to physically construct or install the asset in practice (construction-defining outputs)?"

**If YES: classify as Direct.**

**If NO: proceed to Step 3 (meaning does it define what will be procured?)**

A1.15 This question seeks to determine whether, without this activity, construction teams would not know how to construct or install the asset in practice (for example how deep are the foundations, what materials will be used, and where exactly does each part go?).

A1.16 Where the information generated is used directly to define how the asset will be constructed or installed in practice (for example layout, installation method, foundation design), the activity must be classified as Direct.

A1.17 Construction-defining outputs may arise from both physical and non-physical activities. An activity does not need to involve physical construction works in order to be classified as Direct. Non-physical activities may still be Direct where the outputs are relied upon to execute construction or installation in practice.

A1.18 Illustrative examples include:

- Detailed construction drawings or layouts relied upon to execute construction or installation in practice, which contractors will then use as the basis of exactly how to do the job of building.
- Engineering design determining how deep and wide tower foundations must be.
- Installation methodologies setting out how the work will be carried out in practice (for example how an asset will be transported onto site, where cranes will be positioned, the sequence of lifting and placing equipment, and relevant safety procedures). Even if no physical construction work is taking place yet, this type of activity still directly shapes how construction will be executed in practice.
- Ground investigations undertaken to determine foundation design, piling solutions or other construction requirements are Direct where the outputs are relied upon to execute construction or installation in practice. Without this, you cannot safely build the asset.

A1.19 If the activity supports planning or provides information, but does not determine how the asset will be physically constructed or installed in practice, it is not Direct.

A1.20 Illustrative examples include:

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- Environmental surveys informing route or environmental assessment decisions but not defining how the asset will be physically constructed or installed in practice.
- Stakeholder engagement, for example talking to landowners or communities, supports the project.
- High-level system studies to look at different route options or voltage levels help choose a solution.

A1.21 As noted in A1.12 above, not all non-physical design activity will automatically be classified as Indirect. Design activity should be classified as Direct where it produces construction-defining outputs relied upon to execute construction or installation in practice.

### Step 3 – Functional design test (CAI Very)

A1.22 "Does it define what needs to be procured (that is delivered or bought), and not how it will be constructed or installed in practice?"

**If YES: CAI Very**

**If NO: proceed to Step 4 (meaning is it scheme-specific?)**

A1.23 Functional design activities establish what solution is required and what must be procured, but do not define how the asset will be constructed or installed in practice and are therefore classified as CAI Very. Illustrative examples include:

- System study work where engineers look at the wider electricity network to decide what changes are needed (looks at different scenarios, tests how the network will perform and identifies possible solutions).
- Optioneering process to compare different ways to solve a problem and choosing the best one. It may compare multiple options and assess costs/risks/performance but does not define detailed construction methods or specify how contractors will build anything.
- Functional specifications activity focuses on defining “what” suppliers are required to deliver. This may include capability requirements, operational performance, procurement-ready functional specification development, safety standards or system requirements. Such activity supports supplier engagement and procurement processes but does not define outputs directly relied upon to execute construction or installation in practice (such as executable physical construction, installation methodology, or

## Consultation Draft Electricity Transmission annual reporting framework (R110-ET3)

construction sequencing).<sup>23</sup> Activities that develop such execution-defining outputs would be considered separately under Direct classification.

Activities may begin defining “how” the asset must be physically constructed, installed, configured or delivered in practice. This may include installation constraints, site-specific construction requirements, physical interface definition, detailed layout requirements or construction sequencing expectations. In these situations, capability, output and procurement requirement activities would typically remain classified as CAI Very.

Activities that materially shape delivery strategy or delivery preparation may remain classified as CAI Very unless the outputs become relied upon to execute physical construction, installation, sequencing or construction methodology.

However, activities should normally be classified as Direct where they involve:

- commitment to physical asset manufacture or delivery;
  - detailed physical configuration outputs relied upon for installation or construction;
  - manufacturer or supplier outputs relied upon to physically deliver or install the asset in practice; or
  - executable production, fabrication or construction-defining engineering outputs.
- Activity to determine the capacity/voltage definition, capability requirements and what type of equipment is needed. It does not determine physical layout or define construction detail.

A1.24 We recognise that activities will often contain a mix of Functional design (CAI Very) and Construction-defining work (Direct) as work progresses.

A1.25 When an activity includes a mix of work, it must be split into separate components, each with its own classification. These are different types of work, so they must be treated differently.

A1.26 TOs cannot report it all as CAI Very just because it started as a study or design activity. As activities evolve, some outputs may become relied upon to execute construction or installation in practice. Using the above examples:

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<sup>23</sup> In this context, “executable” means that the outputs of the activity are directly used to carry out construction or installation in practice.

## Consultation Draft Electricity Transmission annual reporting framework (R110-ET3)

- System studies may initially focus on “What solution do we need?”. Activities may also begin to define how the asset will be physically constructed or installed in practice (for example, defining exact substation layouts, interface configurations or physical connection arrangements). In this situation, system study activity would typically classify as CAI Very, while detailed layout and construction-defining engineering outputs would normally classify as Direct.
- Optioneering may initially focus on “What delivery approach or solution option should be selected?”. Activities may also begin to define how that option will be constructed, installed or configured in practice (for example, developing route-specific physical delivery constraints, construction access requirements or construction methodologies). In this situation, option comparison and solution selection activity would typically remain CAI Very, while construction-defining development activity would normally classify as Direct.
- Functional specification activity may initially focus on defining “What capability, performance or solution requirements suppliers must deliver?”. Activities may also begin to define how the asset must be constructed, installed or configured in practice (for example, installation constraints, site-specific construction requirements, interface configuration requirements or construction sequencing expectations). In this situation, capability and procurement requirement activity would typically remain CAI Very, while construction-defining outputs for construction or installation would normally classify as Direct.

Additional examples of CAI Very activity, provided the outputs are not directly relied upon to execute construction or installation in practice, may include:

- engineering-led logistics planning;
  - outage integration and sequencing strategy development;
  - mobilisation planning;
  - systems integration planning;
  - technical assurance;
  - procurement-ready solution refinement; and
  - constructability coordination activities.
- Work to determine voltage, capacity or required system capability may initially focus on “What capability or performance is required from the solution?”. Activities may also begin to define how this capability will be constructed, installed or configured in practice (for example, defining physical delivery arrangements, detailed equipment layouts, interface

## Consultation Draft Electricity Transmission annual reporting framework (RIIO-ET3)

configurations, installation constraints or how assets will physically connect and operate together). In this situation, capability and requirements definition activity would typically classify as CAI Very, while construction-defining engineering and physical delivery definition activity would normally classify as Direct.

### Step 4 – Scheme-support linkage test

A1.27 "Is the activity directly linked to a specific scheme and required to support and enable delivery (but is not construction-defining)?"

**If YES: CAI Other<sup>24</sup>**

**If NO: Business Support**

A1.28 Illustrative examples of activities that would meet the classification test for CAI Other include:

- Environmental and ecological surveys not relied upon for final construction design (such as habitat, species, feasibility-stage ground investigations);
- Land acquisition for a scheme;
- Consenting activities; and
- Scheme-specific development and planning activities.

A1.29 These examples are indicative and should be interpreted as activities that are scheme-enabling but do not fall within more clearly defined CAI categories.

A1.30 Illustrative examples of activities that would meet the classification test for Business Support include:

- Portfolio or programme-wide Project Management Office (PMO) activity;
- Corporate strategy and governance;
- Procurement frameworks and strategic sourcing activity not scheme-specific;
- Supply-chain readiness and strategic mobilisation planning;
- Corporate environmental, engineering or delivery frameworks;
- Central governance, assurance and audit activity;
- Unsupported contractor overheads; and
- Organisation-wide support functions.

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<sup>24</sup> CAI Other is intended to include scheme-enabling or supporting activities that are necessary for project delivery but are not directly attributable to specific construction, equipment, or core delivery cost categories. CAI Other should be used only where costs cannot reasonably be allocated to more specific classifications, rather than a catch-all classification. Accompanying narrative will explain the nature of the activities captured, the rationale for their classification, and any material drivers of cost.

## Illustrations of applying the RIGs classification sequence

The following examples illustrate the practical application of the activity-based cost classification sequence, showing how activities should be assessed and classified under the RIGs framework.

**Activity example 1:** Building temporary access track to establish future construction access and support future construction delivery activities.

STEP 1: "Yes" => Direct

Additional EEW assessment:

- activity does involve qualifying physical enabling works associated with construction delivery;
- activity does physically enables construction delivery to proceed; and
- activity does not form part of the final asset.

Cost classification: **Direct**

Additional descriptor: **EEW flagged**<sup>25</sup>

**Activity example 2:** Environmental survey (non-intrusive)

STEP 1: "NO" => go to step 2

STEP 2: "NO" => go to step 3

STEP 3: "NO" => go to step 4

STEP 4: "YES" => CAI Other

**Activity example 3:** High-level system design study

STEP 1: "NO" => go to step 2

STEP 2: "NO" => go to step 3

STEP 3: "YES" => CAI Very

**Activity example 4:** Central PM team providing coordination and governance support across multiple investment projects (no direct delivery responsibility).

STEP 1: "NO" => go to step 2

STEP 2: "NO" => go to step 3

STEP 3: "NO" => go to step 4

STEP 4: "NO" => Business Support

**Activity example 5:** Project-embedded PM team responsible for embedded on-site supervision and control of live construction works during the construction phase (meaning direct delivery responsibility, not just assigned to a project though internal reporting).

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<sup>25</sup> If the activity example were instead to solely to facilitate feasibility-stage survey activity only, although the activity involves physical works it would not normally qualify for the EEW reporting flag.

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

STEP 1: "NO" => go to step 2

STEP 2: "YES" => Direct

Please note: project-specific PM activity does not automatically become Direct simply because it is assigned to a named project. PM activities such as planning, scheduling, reporting, risk management and contractor coordination are typically classified as CAI Very. PM activity would typically become Direct where it forms part of embedded construction delivery through on-site supervision, management or control of physical construction works.

**Activity example 6:** Hybrid Project Management Office (PMO) that provides central governance and assurance across all projects (Part A) and deploys PM staff who are embedded in specific projects (Part B).

PART A: see example 4.

PART B: see example 5.

**Activity example 7:** Construction-defining ground investigation activity relied upon for foundation design or physical construction methodology.

STEP 1: "NO" => go to step 2

STEP 2: "YES" => Direct (even though the activity is “survey-like”, the outputs are relied upon to physically construct or install the asset in practice).

**Activity example 8:** Clearing vegetation, constructing temporary access tracks, and preparing ground conditions to enable construction works.

STEP 1: "YES" => Direct

The activity:

- involves qualifying physical enabling works associated with construction delivery;
- physically enables construction delivery to proceed; and
- does not form part of the final asset.

Cost classification: **Direct**

Additional descriptor: **EEW flagged**

**Activity example 9:** Contractor work package including site clearance and temporary access roads and project planning and (non-intrusive) environmental surveys.

STEP 1: split by the nature of the activity undertaken.

- Physical enabling works (clearance and access) => “YES” => Direct
- Non-physical support activities (planning and informational survey activity) => “NO” => proceed through remaining classification steps.

STEP 2: classification.

- Physical => Direct

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- Non-physical support activity => “NO” => proceed to Step 3/4

EEW flag applicable only to the physical Direct component.

Cost classification (split):

- site clearance and access: **Direct (EEW flagged)**
- planning and surveys: **CAI Other**

**Activity example 10:** Detailed installation methodology defining crane positioning, lifting sequence and equipment installation requirements.

STEP 1: "NO" => go to Step 2

STEP 2: "YES" => Direct

Although the activity is non-physical and engineering-based, the outputs are relied upon to physically construct and install the asset in practice.

Cost classification: **Direct**

**Activity example 11:** Supplier manufacturing reservation preserving access to future transformer manufacturing capacity, with no committed fabrication or configuration activity initiated.

STEP 1: “NO”

STEP 2: “NO”

STEP 3: “YES” => CAI Very

The activity supports procurement readiness and future delivery planning but does not yet initiate committed physical manufacture or construction-defining delivery outputs.

Cost classification: **CAI Very**

**Activity example 12:** Supplier engineering and manufacturing activity initiated following committed transformer order, including detailed physical configuration activity relied upon for delivery and installation.

STEP 1: “NO”

STEP 2: “YES” => Direct

Although the activity is non-physical from the TO perspective, the outputs are relied upon to physically manufacture, configure and deliver the asset in practice.

Cost classification: **Direct**

## Appendix 2. Early Enabling Works

- A2.1 Early Enabling Works (EEW) refers to qualifying physical enabling works associated with construction delivery that help prepare a site or location so construction can take place (for example temporary access roads, site clearance or temporary site facilities).
- A2.2 The key distinctions is between:
- activities producing construction-defining outputs relied upon to physically construct or install the asset, which are classified as Direct; and
  - activities involving physical enabling works that prepare or enable the site for construction, which are also classified as Direct and may qualify as EEW.
- A2.3 For an activity to qualify as EEW, it must involve qualifying physical enabling works that physically enable construction to take place without forming part of the final asset.
- A2.4 EEW activity does not need to produce construction-defining outputs itself. Rather, EEW is specifically concerned with physically preparing or enabling construction delivery. By contrast, activities producing outputs relied upon to determine how the asset will be physically constructed are classified as Direct because they are construction-defining but would not normally qualify as EEW unless they also involve qualifying physical enabling works.
- A2.5 We recognise that the phrase “early enabling” may operationally be used to describe a broader set of activities associated with preparing a project for construction. These broader activity packages may legitimately contain a combination of:
- Direct physical enabling works;
  - scheme-specific non-physical support activity; and
  - broader governance, portfolio or programme support activity.
- A2.6 However, for regulatory reporting purposes:
- only qualifying Direct physical enabling works should receive the EEW reporting flag; and
  - all remaining activities must continue to be classified in accordance with the RIGs activity-based hierarchy.

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A2.7 The use of operational delivery terminology should therefore not override the underlying activity-based classification principles.

### Summary logic for identifying EEW

A2.8 The EEW test is applied only after the underlying activity-based cost classification has been determined, ensuring that EEW remains a descriptor of Direct physical enabling activity rather than a standalone reporting category.

A2.9 Positive indicators that activity would normally qualify for the EEW reporting flag include where the activity:

- establishes future physical construction access;
- establishes temporary physical delivery infrastructure required for construction activity;
- creates or prepares physical site conditions necessary for executable construction delivery;
- physically enables construction delivery capability or construction readiness;
- enables safe physical access for future construction delivery teams, plant or equipment;
- establishes temporary construction compounds, welfare or logistics infrastructure necessary for physical delivery activity;
- prepares temporary working platforms, haul routes or access corridors for construction activity; or
- undertakes physical enabling activity relied upon to allow future executable construction delivery to proceed.

A2.10 Negative indicators that activity would not normally qualify for the EEW reporting flag include where the activity primarily:

- supports feasibility, optioneering or informational assessment only;
- establishes temporary access solely for survey or investigation activity;
- supports planning, coordination or governance activity;
- preserves procurement optionality or delivery flexibility;
- supports commercial, consenting or stakeholder processes;
- develops functional or procurement-ready specifications without physically enabling construction delivery;

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- undertakes temporary works whose purpose is informational rather than establishing future construction delivery capability; or
- supports project progression without establishing executable physical construction readiness.

A2.11 Activities may support overall project progression without themselves meeting the narrower EEW definition for regulatory reporting purposes.

A2.12 When assessing whether Direct physical enabling activity should receive the EEW reporting flag, TOs should consider the following question: “Does the activity primarily establish future executable construction access, construction readiness or physical delivery capability for the enduring asset?” If yes the activity would normally qualify for the EEW reporting flag.

A2.13 The relevant distinction is whether the activity physically prepares the site or delivery environment for future construction execution in practice, rather than simply facilitating investigation, feasibility assessment, planning or project progression activities.

### **Step 1: Apply RIGs activity-based costs classification**

A2.14 Does the activity involve physical enabling works associated with construction delivery, or produce outputs relied upon to physically construct or install the asset (construction-defining)?

**Yes → Direct**

**No → Indirect (CAI or Business Support)**

### **Step 2: Apply EEW test to Direct activities only**

A2.15 A Direct activity should be identified as EEW where it:

- involves qualifying physical enabling works associated with construction delivery; and
- enables construction to take place; and
- does not form part of the final asset.

A2.16 Not all activities described as “early enabling” qualify as EEW for reporting purposes; only the physical enabling component of Direct activities is flagged as EEW, following application of the RIGs classification rules.

A2.17 In practice, activities described operationally as “early enabling” may include a mix of physical works (for example, site clearance or access construction) and non-physical preparatory activities (such as planning, design or non-intrusive surveys). Under the RIGs framework, these elements must be classified separately in accordance with their underlying nature and outputs, and activities must be split on a reasonable and proportionate basis:

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- Physical enabling component: **Direct (EEW flagged)**
- Remaining activity: **CAI or Business Support**

A2.18 For the avoidance of doubt, not all Direct activity is EEW. EEW applies only to qualifying Direct physical enabling works that prepare the site or delivery environment for construction without forming part of the final asset.

A2.19 For clarity, not all Direct activity qualifies as EEW. Direct activity may arise either because:

- the activity involves qualifying physical enabling works associated with construction delivery; or
- the activity produces construction-defining outputs relied upon to physically construct or install the asset.

A2.20 Only the qualifying physical enabling works category of Direct activity may receive the EEW reporting flag.

### **Illustrative examples (non-exhaustive)**

A2.21 Illustrative examples of activities that meet the proposed activity-based cost classification are set out below, together with explanations of why they are classified in this way.

#### **1. Site access and ground preparation (the most common EEW activities).**

- Building temporary access roads for construction vehicles;
- Installing temporary trackways or matting;
- Clearing vegetation or land to allow access; and
- Creating temporary working platforms.

A2.22 Classified as “EEW” because they involve qualifying physical enabling works that help establish the physical conditions necessary for construction activity to commence safely and effectively.

#### **2. Site set up and welfare facilities (that is getting the site ready for construction crew)**

- Installing site cabins / welfare units;
- Setting up temporary power, water, or drainage; and
- Creating compound areas or storage yards.

A2.23 Classified as “EEW” because they involve physical preparation or temporary facility setup necessary to support safe and effective construction delivery (without these activities you could not safely proceed).

#### **3. Early groundworks (not part of final asset)**

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- Physical preparation that supports construction but is not the final build;
- Levelling or preparing ground before main works;
- Temporary drainage or stabilisation works; and
- works relied upon to support construction readiness or construction-defining ground investigation activity (for example trial pits).

A2.24 Classified as “EEW” because they involve physical enabling activity that prepares the conditions necessary for construction to proceed (without which the site would be inaccessible for construction works).

### **4. Other enabling works**

- Temporary bridges or crossings for access
- Temporary fencing or security works; and
- Construction haul roads.

A2.25 Classified as “EEW” because they involve qualifying physical enabling works that support construction access or construction delivery without forming part of the final asset.

### **5. Work packages where a contract includes early site activity**

- Early contractor mobilises and clears site, installs access and sets up the compound.

A2.26 Only the physical site elements are EEW; any planning/design elements in the same package must be split out.

### **What is not EEW and why?**

A2.27 The following activities would not normally meet the proposed definition of EEW because they do not themselves constitute qualifying physical enabling works associated with construction delivery.

- **Engineering design activities must be classified according to their purpose and outputs.** Engineering design would not normally qualify as EEW because it does not itself constitute qualifying physical enabling works associated with construction delivery.<sup>26</sup>

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<sup>26</sup> Design work may be closely linked to a specific project and help it move forward (for example designing how a substation might be built) but typically does not involve physically changing the site or enabling construction on the ground.

## Consultation Draft Electricity Transmission annual reporting framework (RIIO-ET3)

Note that “design” does not move between cost classification categories based on timing (pre- or during construction) or funding.<sup>27</sup> Instead, each component of design is classified once, based on its purpose and output, and then reported consistently.

Engineering design is a “boundary activity”, meaning it can span more than one cost classification category and must therefore be split where it performs different functions:

- Design activity that develops the procurement-ready functional or system specification must be classified as Indirect CAI Very. For example, shaping the overall concept, defining the required capability or performance, or specifying what is to be procured.
- By contrast, design activity that defines how the asset will be physically constructed or installed in practice must be classified as Direct, regardless of when it occurs. For example, detailed installation drawings, foundation designs, wiring diagrams or build specifications.
- **Surveys (unless part of physical enabling works).** Surveys and investigations should not be classified solely based on whether the activity is intrusive or non-intrusive, nor solely because the activity is operationally described as a “survey”. Classification instead depends on the purpose of the activity and whether the outputs are relied upon to define how the asset will be physically constructed or installed in practice.

Broadly, survey activity will typically fall into two categories:

a) Informational or feasibility-stage surveys: These activities support option development, route selection, environmental assessment, feasibility analysis or general project understanding, but do not directly determine how the asset will physically be constructed or installed. Examples include ecological surveys or route corridor assessments. These activities would typically be classified as CAI depending on their underlying nature and attribution.

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<sup>27</sup> Classification is determined by the underlying nature and outputs of the activity, rather than when the activity occurs within the project lifecycle. If classification depended on timing, identical activities could be reported differently simply because they occurred earlier or later in the project, undermining consistency and comparability across TOs.

b) Construction-defining surveys or investigations: These activities directly inform, constrain or determine executable physical construction delivery, installation methods, layout configuration, interface requirements or construction sequencing. Examples may include foundation design investigations or construction-defining geotechnical investigations. These activities would typically be classified as Direct because the outputs are relied upon to physically construct or install the asset in practice.

Where temporary physical works are undertaken solely to facilitate survey activity, the physical enabling component may still be classified as Direct where it involves physical delivery activity. However, this does not automatically mean the activity should be identified as EEW.

To qualify as EEW, the activity must physically enable future construction access or construction readiness, rather than solely facilitate survey or feasibility activities.

Accordingly:

- temporary enabling works undertaken purely to support surveys or investigations would not normally be flagged as EEW; whereas
  - temporary works establishing future construction access, construction readiness or future construction access or physical delivery capability may qualify as EEW.
- 
- **Planning applications or consents.** The activity is legal/administrative permission (meaning “are we allowed to build?”), rather than preparing the site itself. The physical condition of the site remains unchanged. The EEW test focuses on whether the site is physically ready for construction to begin, which is not achieved through this activity.
  - **Project management or mobilisation planning.** The activity is directly associated with organising people, resources and delivery plans (meaning “how will construction be organised?”), but does not involve physical preparation of the site. As a result, site conditions remain unchanged. To meet the EEW definition, the activity must demonstrate that construction can physically proceed on the site as a result of the work, which this activity does not do.

## Consultation Draft Electricity Transmission annual reporting framework (R110-ET3)

- **Procurement activities.** Preparatory procurement activities generally support acquisition of resources, materials and services required for construction rather than physically enabling construction itself. Such activities would not normally qualify as EEW because they do not establish physical construction access, construction readiness or qualifying physical enabling works.

However, procurement-related activity may still classify as Direct where it involves commitment to physical asset manufacture, configuration or delivery in accordance with the wider RIGs activity-based classification framework.

- A2.28 While, in a broader project delivery sense, all of these activities may help construction progress, the RIGs apply a narrower activity-based definition when determining which activities qualify for the EEW reporting flag, focused specifically on qualifying physical enabling works associated with construction delivery.
- A2.29 Under the RIGs framework, “enabling construction” refers to physically enabling construction delivery to proceed through qualifying enabling works, rather than simply supporting project progression, planning or coordination activities.
- A2.30 The relevant test is therefore: “Does this activity involve qualifying physical enabling works that physically enable construction delivery to proceed?” (rather than simply “does this activity help the project happen?”).
- A2.31 All of the above activities may support construction in a strategic, preparatory or coordination sense, but they do not themselves constitute qualifying physical enabling works associated with construction delivery. As a result, they would not normally meet the proposed definition of EEW.

## Appendix 3. Privacy policy

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### 1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### 2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### 3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest, such as a consultation.

#### 4. With whom we will be sharing your personal data

Information: Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data, then make this clear. Be as specific as possible.

#### 5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time for example ‘six months after the project is closed’)

#### 6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data

## **Consultation** Draft Electricity Transmission annual reporting framework (RIIO-ET3)

- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
  - to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/> or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas** (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.** (If using a third-party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

**10. More information** For more information on how Ofgem processes your data, view our [Ofgem privacy policy](#).